MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

DTX5024 – TAXATION 2

(All sections/Groups)

14 FEBRUARY 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Duopharma Sdn Bhd is a pharmaceutical company based in Bangi, Selangor. It commenced its operation on 1 September 2021 with a paid-up capital of RM2.4 million. The company prepares its accounts on 31 December annually. The company's profit and loss account are as follows:

Duopharma Sdn Bhd
Statement of Profit and Loss
For the year ended 31 December 2022

	Note	RM	RM
Sales			17,657,200
Less: Cost of sales	1		9,211,000
Gross profit			8,446,200
Add: Other income			
Gain on disposal of machinery			3,500
			8,449,700
Less: Expenses			
Salaries and wages	2	350,000	
Employee Provident Fund contribution	3	77,000	
Staff welfare	4	292,000	
Travelling and entertainment	5	334,000	
Bad and doubtful debts	6	275,000	
Depreciation		406,000	
Cost of tax appeal		12,700	
Rental expense	7	75,000	
Repair and maintenance	8	254,000	
Freight and insurance	9	140,000	
Audit and accounting fees	10	47,000	
Legal expense	11	13,000	
Donations	12	10,000	
			(2,285,700)
Net profit before tax			**RM6,164,000**

Notes to the accounts:

1. Cost of sales consist of:

   Included in the cost of sales were the legal fees incurred on embezzlement amounted to RM18,200.

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2. Salaries and wages comprise:

	RM
Salaries of employees	170,400
Salaries for disabled employees	60,000
Incentive bonus	119,600
	350,000

3. Employee Provident Fund contributions of RM77,000 are calculated at 22% of total salaries and wages.

4. Staff welfare comprises:

	RM
Staff medical and dental	110,200
Leave passage for directors	37,000
Education loan to employees written off	75,000
Maintenance of childcare centre (not registered with Department of Social Welfare)	69,800
	292,000

5. Travelling and entertainment:

	RM
Company's annual dinner at five stars hotel	186,000
Lunches for customers and staff	28,000
Disbursement for marketing staff	40,000
Family day for staff and their families	80,000
	334,000

6. Bad and doubtful debts:

	RM
General provision at year end 31 December 2022	125,000
Specific provision at year end 31 December 2022	58,000
Bad debts written off during the year	92,000
	275,000

7. Rental expenses:

Included in the rental expenses is RM15,000 for three months of rental advances from 1 January 2023 until 31 March 2023.

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8. Repair and maintenance:

	RM
Installation cost of air-conditioner	50,000
Amortization of renovation	83,000
Repainting office premise	88,500
Replacement part of broken windows	32,500
	254,000

9. Freight and insurance:

This includes RM55,000 premium paid to Axa Insurance Sdn Bhd, a company incorporated in Malaysia, for goods imported. Insurance premium for key-man's endowment policy and key-man's whole life policy are RM38,000 and RM47,000 respectively.

10. Audit and accounting fee:

	RM
Audit fee	7,000
Accounting fee	18,000
Registration of new trademark	22,000
	47,000

11. Legal expense:

	RM
Renewal of lease	5,000
Fine imposed on late submission of tax return	8,000
	13,000

12. Donations:

The company donated medical equipment and medicines worth RM10,000 to an orphanage (approved institution) in conjunction with Malaysia Day.

13. Capital allowances are RM307,800 and balancing charge is RM65,000 for the year of assessment 2022.

Required

Compute the statutory business income for Duopharma Sdn Bhd for the year of assessment 2022. Start your computation from the net profit before tax. (20 marks)

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QUESTION 2

Ames Hotel (M) Sdn Bhd operates a five-star hotel, and it closes its account every 31 December. The hotel started its operation on 1 May 2019. The following capital expenditures were made by the company for the purpose of its business:

1. Ames Hotel incurred the cost of buying kitchen equipment on 15 May 2019 amounted to RM1,200,000.

2. Heavy plant and machinery were bought on 1 June 2020. The expenditure incurred on the alteration of the building for the purpose of installing the heavy plant and machinery. The details are as follows:

	RM
New plant and machinery	200,000
Alteration cost of new plant and machinery	20,000

3. A secondhand lorry was bought on 20 May 2019 amounted to RM120,000. It was used immediately in the hotel business. Due to high maintenance costs, the lorry was sold to a third party on 1 April 2022 for RM75,000.

4. A four-wheel drive Ford Ranger which is not used for commercial was acquired by hire purchase and the deposit was paid on 15 July 2019.

	RM
Cost of motor car	150,000
Deposit	30,000
Hire purchase loan	134,400
Hire purchase interest included in above	14,400
Installment per month	3,360
Term of repayment (start from 1 September 2019)	40 months

5. The hotel equipment furniture and fittings incurred on 12 January 2021 amounted to RM450,000. The furniture and fittings were used for administrative purposes.

Continued ...

Required

(a) Compute the capital allowance and balancing allowance/charges applicable to Ames Hotel for the relevant years of assessment until the year of assessment 2022. (17 marks)

(b) State the conditions to claim the capital allowance on assets above. (3 marks)

(Total: 20 marks)

QUESTION 3

Part A

Mechamato Sdn Bhd prepares its accounts on 30 September annually. The company carries a safety belt manufacturing business in Malaysia. The company commenced its business on 1 July 2019.

Mechamato Sdn Bhd has incurred the capital expenditure in connection with the factory. The expenses for the construction of a factory are as follows:

Expenditure	**RM**
Cost of land	450,000
Legal fee for:	
-agreement for purchase of the land	12,500
-agreement with the building contractor	10,000
Architect fees	130,000
Levelling the site and terracing	80,000
Construction cost	1,500,000
Plumbing and wiring	240,000
Piling and foundation	60,000
Stamp duty for purchase the land	3,500
Total costs	**2,486,000**

In February 2020, the factory was completed and was used for business.

The factory building was 30,000 square metres in size. From these total spaces, 3,000 square metres are used as an office, and 600 square metres are used as a showroom.

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Required

(a) Calculate the qualifying building expenditure for the building. (5 marks)

(b) Compute the and industrial building allowance available for Mechamato Sdn Bhd for the relevant years until the year of assessment 2022. (5 marks)

Part B

Shelly Sdn Bhd commenced operation in the mining business for the first time on 1 July 2018 with the estimated life of the mine of 10 years. The company closes its account on 31 December annually. The cost of site amounted to RM240,000 is located in Selangor.

The mine ceased permanently on 30 June 2022 even though it was estimated to have a life span of 10 years.

Required

(a) Compute the mining allowance for the relevant years of assessment. (5 marks)

(b) Recompute the mining allowance if the company makes an election under paragraph 15, Schedule 2 of the Income Tax Act 1967. (5 marks)

(Total: 20 marks)

QUESTION 4

The partnership between Rose and Steve commenced on 1 January 2022. The company closes its business on 31 December annually. The partnership agreement provided is as follows:

	Rose (RM)	**Steve (RM)**
Salary per month	2,500	3,000
Share of divisible income	40%	60%
Capital contribution	60,000	120,000
(Interest on capital of 10% per annum for each partner)		

On 31 August 2022, Rose decided to leave the partnership. She withdrew all the contributed capital and profit as agreed. Concurrently, Terrance joined the partnership, and the new agreement is provided as follows:

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	Steve (RM)	Terrance (RM)
Salary per month	3,000	3,000
Share of divisible income	50%	50%
Capital contribution	150,000	150,000
(Interest on capital is 10% per annum for each partner)		

The partnership's trading, profit and loss for the year ended 31 December was as follows:

	RM
Sales revenue	1,780,600
Less: Cost of sales	1,190,400
Gross profit	590,200
Other income	180,500
	770,700
Less: General expenses	450,300
Net profit	**320,400**

Included in the general expenses are:

	RM
Partners' salaries	68,000
Partners' interest on capital	22,000
Depreciation of fixed asset	36,000

Capital allowance for the year of assessment 2022 was RM40,800.

Required

(a) Compute the partnership's provisional adjusted income. (2.5 marks)
(b) Calculate the divisible income. (1.5 marks)
(c) Calculate the adjusted income for each partner. (13.5 marks)
(d) Calculate the statutory income of each partner. (2.5 marks)

(Total: 20 marks)

Continued ...

QUESTION 5

Part A

Thomas has decided to take up the advice on setting up a high-tech device manufacturing plant. The new resident Malaysian company will be incorporated as Areco Bhd.

Areco Bhd then awarded a contract by Samyong Ltd., a Korean company. Samyong Ltd established a Malaysian branch to supply and install the plant and machinery.

Areco Bhd also entered a contract with a Russian company to provide technical support for its manufacturing activities. It is anticipated that the technical support will be provided from Russia.

In addition, Areco Bhd leased two units of smart devices from a Chinese company. The following are the payments relating to the projects:

1. Contract payments to Samyong Ltd amounted to RM800,000. The service portion of the contract payment would be 60% of the total payment.
2. Technical service fees to the Russian company were RM500,000.
3. Lease rental to the Chinese company was RM300,000.

Required

(a) Explain whether withholding tax is applicable to each of the above payments. If so, state the withholding tax rates for respective payment. (7 marks)

(b) State the consequences of not complying with the withholding tax provisions applicable to payments to non-residents. (3 marks)

Part B

Justin acquired the shophouse for a consideration of RM400,000, which he paid in full on 15 July 2018. The shophouse was transferred to him on 23 January 2019. He has incurred the additional costs as follows:

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	RM
Stamp duty on transfer	4,000
Interest on loan	170,000
Renovation cost	67,500
Legal expenses in defending the title of the shophouse	5,200
Total costs	246,700

Justin received the following recoveries in the year 2021:

	RM
Compensation for damages of his shophouse from developer	27,500
Compensation for above damages from insurance company	15,400
Deposit forfeited (potential buyer called off)	40,000
Total recoveries	82,900

On 1 September 2022, Justin sold his shophouse for RM650,000, as evidenced by the Sales and Purchase Agreement. In connection with the sales, he incurred the following expenses:

	RM
Valuation fee	7,500
Advertisement cost	2,200
Real estate agent fees	14,300
Total costs	24,000

Required

Calculate the real property gains tax payable by Justin in respect of the year of assessment 2022. (10 marks)

(Total: 20 marks)

Continued ...

APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2022:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Computers	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%

Rates of Real Property Gains Tax YA 2022

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	5%	10%	10%

End of Paper